

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP  
UTILITY AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2004

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>OWOSSO-CALEDONIA UTILITY AUTHORITY</b>	County <b>SHIAWASSEE</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>3/12/05</b>	Date Accountant Report Submitted to State: <b>4/7/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>DEMIS AND WENZLICK, P.C.</b>			
Street Address <b>217 N WASHINGTON ST, SUITE 201</b>		City <b>OWOSSO</b>	State <b>MI</b>
Accountant Signature <i>Don D. Chert, CPA</i>		ZIP <b>48867</b>	Date <b>4/7/05</b>

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# DEMIS and WENZLICK, P.C.

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

The Owosso Township-Caledonia Township  
Utility Authority  
Shiawassee County, Michigan

We have audited the general-purpose financial statements of the Owosso Township-Caledonia Township Utility Authority, as of and for the year ended December 31, 2004. These general-purpose financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities as required by the Governmental Accounting Standards Board (GASB 34). Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. GASB 34 requires management's discussion and analysis which also has not been prepared.

In our opinion, except for the non-application of GASB 34, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Owosso-Caledonia Utility Authority, as of December 31, 2004, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Our report of comments and recommendations has been submitted under separate cover dated March 12, 2005.

*Dennis and Wergelt, P.C.*

Certified Public Accountants

Owosso, Michigan  
March 12, 2005

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2004

ASSETS:

Petty Cash	\$ 100
Cash in Bank	139,370
Accounts Receivable:	
Customers	41,954
Local Governments	11,236
Prepaid Insurance	<u>14,531</u>
TOTAL CURRENT ASSETS	\$ 207,191

Fixed Assets (Net of Accumulated  
Depreciation of \$4,301,004)  
TOTAL ASSETS

8,783,182  
\$8,990,373

LIABILITIES:

Accounts Payable	\$ 2,382
Prepaid Water Contract	<u>4,000</u>
TOTAL CURRENT LIABILITIES	\$ 6,382

EQUITY:

Contributed Equity (Net of Amortization of \$4,198,032)	\$8,726,416	
Retained Earnings	<u>257,575</u>	<u>8,983,991</u>
		<u>\$8,990,373</u>

The accompanying notes are an integral  
part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
YEAR ENDED DECEMBER 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	ACTUAL (OVER) UNDER <u>BUDGET</u>
OPERATING REVENUES:			
Sewer Charges - Owosso			
Twp. Customers	\$264,000	\$274,054	\$(10,054)
Sewer Charges - Caledonia			
Twp. Customers	262,000	238,395	23,605
Penalties	23,500	24,529	(1,029)
Reimbursements from Other			
Local Governments	133,024	11,120	121,904
Water System - Owosso	4,000	4,000	-0-
Fees and Permits	700	660	40
Interest Income	12,000	1,301	10,699
Miscellaneous Income	<u>6,831</u>	<u>567</u>	<u>6,264</u>
TOTAL OPERATING REVENUES	\$706,055	\$554,626	\$151,429
OPERATING EXPENSES:			
AUTHORITY BOARD:			
Meetings, Holiday Pay	\$ 7,860	\$ 7,225	\$ 635
Office Supplies, Postage	1,000	421	579
Professional Services	3,400	3,400	-0-
Legal Services	6,000	4,697	1,303
Insurance	2,750	1,697	1,053
Engineering	1,500	258	1,242
Social Security	<u>625</u>	<u>553</u>	<u>72</u>
TOTAL AUTHORITY BOARD	\$ 23,135	\$ 18,251	\$ 4,884
PUBLIC WORKS:			
Office Employee	\$ 200	\$ 38	\$ 162
Social Security	15	3	12
Insurance	550	352	198
Office Supplies	2,700	2,311	389
Miss Dig Expense	1,200	847	353
Miscellaneous	300	313	(13)
Rent	3,600	3,600	-0-
Utilities	4,900	4,770	130
Repairs & Maintenance	<u>3,600</u>	<u>891</u>	<u>2,709</u>
TOTAL PUBLIC WORKS	\$ 17,065	\$ 13,125	\$ 3,940

The accompanying notes are an integral part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS  
YEAR ENDED DECEMBER 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	ACTUAL (OVER) UNDER <u>BUDGET</u>
SEWER DEPT. - PERSONNEL:			
Admin. Salary	\$ 41,645	\$ 41,345	\$ 300
Employees Salary	28,579	27,591	988
Social Security	5,387	5,274	113
Unemployment	2,200	1,204	996
Worker's Comp. & Health Insurance	<u>25,720</u>	<u>20,145</u>	<u>5,575</u>
TOTAL SEWER PERSONNEL	\$103,531	\$ 95,559	\$ 7,972
SEWER DEPT. - OTHER:			
Office Supplies, Postage and Miscellaneous	\$ 4,050	\$ 2,399	\$ 1,651
Truck Maintenance	15,000	441	14,559
Insurance	7,700	6,772	928
Maintenance on Lines	2,500	2,097	403
Equipment	56,000	1,484	54,516
Gasoline, Mileage	3,600	3,189	411
Repairs & Maintenance	<u>2,000</u>	<u>1,110</u>	<u>890</u>
TOTAL SEWER - OTHER	\$ 90,850	\$ 17,492	\$ 73,358
Depreciation Expense	\$ -0-	\$179,824	\$ (179,824)
TRANSFERS:			
Owosso Township	\$168,000	\$174,221	\$ (6,221)
Caledonia Township	<u>165,800</u>	<u>148,011</u>	<u>17,789</u>
TOTAL TRANSFERS	\$333,800	\$322,232	\$ 11,568

The accompanying notes are an integral part of the financial statements.



OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	ACTUAL (OVER) UNDER <u>BUDGET</u>
PUMPING & METERING STATIONS:			
Elizabeth Drive	\$ 1,500	\$ 737	\$ 763
933 Terrace Drive	3,000	1,530	1,470
2621 W. Main	3,000	863	2,137
3188 W. Main	3,000	990	2,010
1276 Chestnut	7,000	7,092	(92)
127 N. State	3,000	1,037	1,963
1504 E. Main	232,700	13,579	219,121
Chippewa Trail	3,000	212	2,788
1655 N. Hickory	<u>3,000</u>	<u>733</u>	<u>2,267</u>
TOTAL PUMPING & METERING	\$ <u>259,200</u>	\$ <u>26,773</u>	\$ <u>232,427</u>
TOTAL DISBURSEMENTS	\$ <u>827,581</u>	\$ <u>673,256</u>	\$ <u>154,325</u>
NET INCOME (LOSS)	\$ <u>(121,526)</u>	\$ <u>(118,630)</u>	\$ <u>(2,896)</u>
Add Depreciation on Fixed Assets			
Acquired by Grants		<u>171,126</u>	
INCREASE IN RETAINED EARNINGS		\$ 52,496	
Retained Earnings:			
Beginning of Year		<u>205,079</u>	
RETAINED EARNINGS END OF YEAR		\$ <u>257,575</u>	

The accompanying notes are an integral part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss		\$(118,630)
Add (Deduct) Items Not Affect Cash:		
Depreciation Expense	\$179,724	
Increase in Accts. Rec.	(8,871)	
Decrease in Prepaid Insurance	505	
Increase in Accts. Payable and		
Accrued Expenses	<u>4,351</u>	<u>175,809</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 57,179

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment		\$ <u>(12,675)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		\$ 44,504

Cash and Certificate of Deposit Balance at Beginning of Year		<u>94,966</u>
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CASH BALANCE AT END OF YEAR		\$ <u><u>139,470</u></u>
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DISCLOSURE OF ACCOUNTING POLICY:

For purposes of the Statement of Cash Flows, the organization considers all highly liquid debt instruments, such as certificates of deposit, to be cash equivalents.

The accompanying notes are an integral part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Owosso Township-Caledonia Township Utility Authority was incorporated as a municipal corporation on February 22, 1974, by the two townships. The Authority was organized to construct and operate the sewage disposal system in the two townships.

The accounting policies of the Owosso Township-Caledonia Township Utility Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FUND ACCOUNTING

The Authority has only one fund, which is the enterprise fund. This fund is described in the following paragraph:

PROPRIETARY FUND

Enterprise Fund - Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

FIXED ASSETS

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES

Full-time employees are allowed 40 hours of vacation time after 6 months and 80 hours after one year. Starting in the sixth year, additional vacation time accrues at the rate of 8 hours per year times the number of years over five years until an additional 80 hours is earned, at which time no more vacation time shall accrue. Vacations run from January 1, through December 31, and must be taken within the year or be forfeited.

Sick time and/or personal time accrues at  $\frac{1}{2}$  day per month up to a maximum of 10 days. Any unused sick or personal days can be carried over to the next year, or the employee may choose to have some or all time paid at year end. Payment is limited to one-half time accumulated.

There was no accrual for unused sick or personal time at December 31, 2004, as it is immaterial.

POST RETIREMENT BENEFITS

The Authority has no policy regarding post-retirement benefits. The Authority currently pays up to \$450.00 per month in insurance for each employee. No post-retirement benefits are paid currently.

BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the treasurer submits to the Authority Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the Authority to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through Board approval.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FIXED ASSETS

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated lives using the straight line method. The details of fixed assets and the estimated useful lives used in computing depreciation at December 31, 2004, are shown below:

<u>CLASSIFICATION</u>	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET BOOK VALUE</u>	<u>ESTIMATED USEFUL LIVES</u>
Office Equipment	\$ 11,478	\$ 9,754	\$ 1,724	5 yrs
Machinery & Equip.	172,400	163,403	8,997	5 -9 yrs
Sewer System	<u>12,900,308</u>	<u>4,127,847</u>	<u>8,772,461</u>	20-75 yrs
	<u>\$13,084,186</u>	<u>\$4,301,004</u>	<u>\$8,783,182</u>	

The provision for depreciation charged to operations for the year ended December 31, 2004, amounted to \$179,824.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING (CONTINUED)

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

For financial statement purposes, monies the Authority receives in a fiduciary capacity for the townships is netted against monies paid to the townships.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - REPORTING ENTITY

For financial reporting purposes, in conformance with NCGA Statement No. 3, Defining the Governmental Reporting Entity, the Authority includes all funds, account groups, agencies, boards, commissions and authorities that are controlled by or dependent on the Authority's executive or legislative branches. Control by or dependence on the Authority was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Authority to finance any deficits that may occur or receipt of significant subsidies from the Authority.

Based on the foregoing criteria, there are no organizations that need to be included in the Authority's annual report.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE C - CONTRIBUTED EQUITY

The details of contributions in aid of construction (contributed equity) as of December 31, 2004, are shown below:

<u>CLASSIFICATION</u>	<u>COST</u>	<u>ACCUMULATED AMORTIZATION</u>	<u>NET</u>
Federal Governments	\$ 7,902,126	\$2,560,804	\$5,341,322
State Governments	519,021	167,920	351,101
Local Governments	4,274,397	1,385,360	2,889,037
Construction Interest	<u>228,904</u>	<u>83,948</u>	<u>144,956</u>
	<u>\$12,924,448</u>	<u>\$4,198,032</u>	<u>\$8,726,416</u>

The Authority has elected to amortize depreciation relative to the grants against contributed capital. Accordingly, these costs are amortized over a 75 year life.

NOTE D - TRANSFERS TO OWOSSO AND CALEDONIA TOWNSHIP

The Authority remitted sewer collections back to the Townships. The rates are 60% to Caledonia Township and 60% to Owosso Township. The township uses the money to pay for the operations of the waste water facility by the City of Owosso. The townships are related parties to the Authority.

NOTE E - OPERATING LEASE

The Authority leases the office and garage from Caledonia Township. The monthly payment is \$300. The lease has been classified as an operating lease. Caledonia Township is a related party.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE F - CASH AND CERTIFICATES OF DEPOSIT

The Authority's deposits consist of interest bearing checking accounts. At year end, the carrying amount of these deposits were \$139,370 and the balance was \$160,802.

The Authority's deposits at December 31, 2004, consisted of cash at one financial institution:

<u>INSTITUTION A</u>	<u>AMOUNT</u>	<u>FDIC INSURED</u>	<u>UNINSURED</u>
Cash	\$ <u>160,802</u>	<u>\$100,000</u>	<u>\$60,802</u>

NOTE G - EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18 (1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenses and budgeted expenses for the budgetary funds have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds were adapted to the activity level.

During the year ended December 31, 2004, the Authority incurred expenditures in certain budgetary items which were in excess of the amounts appropriated as follows:

<u>ACTIVITY</u>	<u>TOTAL APPROPRIATION</u>	<u>AMOUNT OF EXPENDITURE</u>	<u>BUDGET VARIANCE</u>
Depreciation	\$ -0-	\$179,824	\$179,824
Public Works:			
Miscellaneous	3,000	313	13
Transfers:			
Owosso Township	168,000	174,221	6,221
Pumping Station:			
1276 Chestnut	7,000	7,092	92



OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE H - GASB 34

The Authority has elected not to present management's discussion and analysis report and display the financial position and changes in financial position of its business type activities as required by the Governmental Accounting Standards Board (GASB 34). Accounting principles generally accepted in the United States of America require the presentation of management's discussion and analysis report and the presentation of government-wide financial statements.